

**MERCER COUNTY SCHOOL DISTRICT
AUDIT REPORT
YEAR ENDED JUNE 30, 2009**

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WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101

Charles M. White, CPA

Email cmwcpa@windstream.net

October 12, 2009

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mercer County School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of Mercer County School District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for Schools District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mercer County School District as of June 30, 2009, and the respective changes in financial position, and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2009, on our consideration of Mercer County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on Pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mercer County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Mercer County School District. The combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

MERCER COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2009

As management of the Mercer County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The beginning general fund balance for the District was \$1,516,083. The June 30, 2009 general fund cash balance for the District was \$1,629,870.
- The General Fund had \$23.5 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There were \$23.2 million in General Fund expenditures. Our General Fund balance increased \$113,787.
- School building revenue bonds payables were reduced \$1,599,304 by routine debt service.
- Net assets increased \$2,168,353.
- Total taxes collected were \$7,684,679 including property, vehicles and utility taxes. The levied equivalent of \$.015 cents was allocated to the building funds resulting in revenues of \$1,760,505. These funds are used for retirement of debt on facilities and/or capital construction projects as set forth by the long range district facility plan.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The District-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 8 - 9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 - 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 20 – 34 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded liabilities by \$19.1 million as of June 30, 2009.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2009 and June 30, 2008

A comparison of June 30, 2009 and June 30, 2008 government wide net assets is as follows:

	<u>2009</u>	<u>2008</u>
Current Assets	\$ 4,697,244	\$ 13,629,244
Non-current Assets	<u>52,468,973</u>	<u>44,041,419</u>
Total Assets	\$ 57,166,217	\$ 57,670,663
Current Liabilities	\$ 3,736,605	\$ 5,143,147
Non-current Liabilities	<u>33,704,985</u>	<u>35,430,631</u>
Total Liabilities	\$ 37,994,999	\$ 40,573,778
Net Assets		
Investment in capital assets (net of debt)	\$ 17,409,560	\$ 16,658,995
Restricted	181,440	-0-
Unrestricted	<u>1,580,218</u>	<u>437,890</u>
Total Net Assets	\$ <u>19,171,218</u>	\$ <u>17,096,885</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

(1) Current assets decreased principally because of the use of construction fund cash to build a new high school facility.

(2) Non-current assets (capital assets) increased due to improvement to school facilities.

(3) Bonded debt for capital improvements to school facilities decreased \$1.6M resulting in a decrease in non-current liabilities.

The following table presents a comparison of District wide revenues and expenses for the fiscal years ended June 30, 2009 and June 30, 2008.

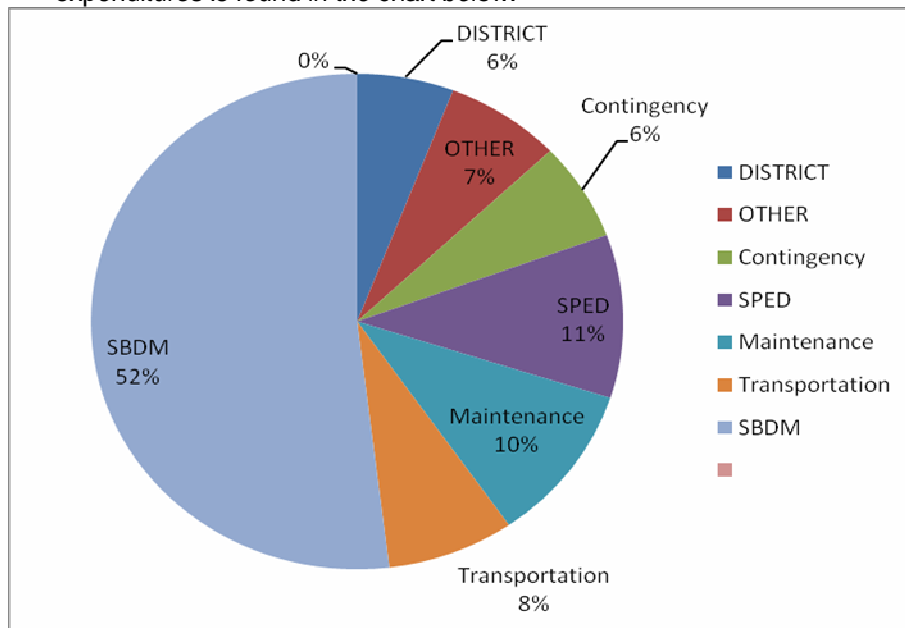
	<u>2009</u>	<u>2008</u>
Revenues:		
Program Revenue		
Fees for Services	\$ 661,103	\$ 691,982
Federal/State Operating Grants	4,752,504	4,742,777
Capital Grants & Contributions	2,125,606	
General Revenue		
Taxes	7,684,679	7,254,762
Interest Earnings	249,787	972,193
State Grants	17,758,896	21,554,263
Other	97,661	111,419
Total Revenues	\$ 33,330,236	\$ 35,327,396
Expenses:		
Instruction	\$ 19,759,738	\$ 18,708,304
Student support services	917,680	1,200,013
Instructional support	990,057	1,142,097
District administrative	742,344	901,323
School administrative	1,263,952	1,347,406
Business support	532,961	713,786
Plant operation	2,462,465	2,411,164
Student transportation	1,859,238	1,900,919
Central Office	553	
Community service	232,442	231,660
Debt service – interest	861,097	1,673,186
Food Service	1,687,459	1,594,035
Total Expenses	\$ 31,309,986	\$ 31,823,893
Increase (decrease) in net assets	\$ 2,020,250	\$ 3,503,503

On-behalf amounts totaling \$4,341,746 for 2008 and \$4,268,704 for 2009 are included in the above figures. On-behalf payments as defined by KDE are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits and administration fees.

General Fund Budgetary Highlights

- The District's general fund revenues for the fiscal year ended June 30, 2009 net of interfund transfers were \$23.5 million.
- General fund budget compared to actual revenue shows favorable variances for all revenue sources.
- The total cost of all general fund programs and services was \$23.2 million.
- General fund budget expenditures to actual shows total expenditures exceeding budget by \$4.2 million. This was due to on-behalf payments made by the State of Kentucky. Revenues exceeded budget for the same reason.

- The general fund excess revenues over expenditures were \$113,787.
- The general fund beginning balance has declined over the past few years but the ending balance for June 30, 2009 shows an increase in the beginning balance for 2010 due to measures the district has taken to reduce recurring expenditures.
 - ▶ June 30, 2007 - \$2,424,146
 - ▶ June 30, 2008 - \$1,516,083
 - ▶ June 30, 2009 - \$1,629,870
- Site Based Decision Making Councils expended over 50% of the general fund budget for school personnel and goods and services. The majority of the Non-SBDM funds (11%) were spent serving children with special needs. The remaining 37% was expended for district support services; a breakdown of these expenditures is found in the chart below.



Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District has adopted a budget for 2009-2010 with an approximate 4.73% contingency (\$1,321,908). Future budgeting and further reduction of recurring expenditures will raise the contingency back to 5% the amount recommended by Kentucky Department of Education.

The Kentucky Department of Education and General Assembly continue to mandate unfunded expenditures and further reduce the state revenues to school districts in an effort to balance the budget for the Commonwealth of Kentucky. In times of declining revenues and increased expenditures the district is forced to use measures of reduction in staff and use of contingency funds to balance the budget.

The Mercer County Board of Education has adopted a new grading configuration for the district with a goal of implementation by August of 2010. The new grading configuration will utilize all buildings in this manner:

- ▶ Harlow Elementary – Preschool/Kindergarten
- ▶ Mercer Elementary – Grades 1-3
- ▶ Lexington Street School – Grades 4/5
- ▶ King Middle School – Grades 6/7/8
- ▶ Moberly Road School – Grade 9 and Day Treatment
- ▶ Mercer Senior High – Grades 10/11/12

The district will be considering the following items on the facility plan:

- ▶ Harlow Elementary – HVAC upgrade
- ▶ Mercer Elementary – Roof replacement
- ▶ King Middle School – Cafeteria expansion, Science labs
- ▶ Moberly Road School – Roof replacement, restroom upgrades and other minor structural repairs

The district currently has approximately \$8 million in bonding potential for use in the projects listed above. The bonding potential is strictly related to funds available in Capital Outlay and Building funds and in no way minimizes funds that are designated for direct instructional services.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2009 fiscal year, the District had \$55,468,973 invested in a broad range of capital assets, including equipment, buses, buildings, and land. Depreciation expense for the year was \$1,796,309 and net capital additions were \$9,941,280.

<u>District Capital Assets (net of depreciation)</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 1,622,246	\$ -0-	\$ 1,622,246
Buildings & Improvements	46,939,620	-0-	46,939,620
Equipment	2,553,804	169,325	2,723,129
Vehicles	1,183,978	-0-	1,183,978
	<u>52,299,648</u>	<u>169,325</u>	<u>52,468,973</u>

Long Term Debt

The District had \$34,395,002 in bonds outstanding at year-end. Bonded debt was reduced \$1,599,304 through annual debt service payments.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director.

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	3,268,094	93,923	3,362,017
Accounts Receivable:			
Taxes - Current	93,854		93,854
Taxes - Delinquent	2,265		2,265
Accounts	70,945		70,945
Intergovernmental - State	121,226		121,226
Intergovernmental - Federal	126,686	75,960	202,646
Bond Issue Costs	829,030		829,030
Inventories for Consumption		15,261	15,261
Total Current Assets	4,512,100	185,144	4,697,244
Noncurrent Assets - Note F			
Land	1,622,246		1,622,246
Construction In Progress			0
Buildings & Improvements	60,274,269		60,274,269
Furniture & Equipment	9,548,308	703,437	10,251,745
Less: Accumulated Depreciation	(19,145,175)	(534,112)	(19,679,287)
Total Noncurrent Assets	52,299,648	169,325	52,468,973
TOTAL ASSETS	56,811,748	354,469	57,166,217
LIABILITIES:			
Current Liabilities:			
Accounts Payable	1,147,191	2,450	1,149,641
Accrued Salaries & Sick Leave - Note A	387,771		387,771
Deferred Revenues	298,949		298,949
Bond Obligations - Note D	1,515,000		1,515,000
Capital Lease Obligation - Note E	111,002		111,002
Accrued Interest Payable	274,242		274,242
Total Current Liabilities	3,734,155	2,450	3,736,605
Noncurrent Liabilities:			
Bond Obligations - Note D	32,880,002		32,880,002
Capital Lease Obligation - Note E	553,409		
Accrued Sick Leave - Note A	824,983		824,983
Total Noncurrent Liabilities	34,258,394		33,704,985
TOTAL LIABILITIES	37,992,549	2,450	37,994,999
NET ASSETS:			
Invested in Net Assets, Net of Related Debt	17,240,235	169,325	17,409,560
Restricted for:			
Capital Projects	26,393		26,393
School Based Decision Making	140,940		140,940
Other Purposes	14,107		14,107
Unrestricted	1,397,524	182,694	1,580,218
TOTAL NET ASSETS	18,819,199	352,019	19,171,218
TOTAL LIABILITIES AND NET ASSETS	56,811,748	354,469	57,166,217

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING	CAPITAL	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
			GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS			
GOVERNMENTAL ACTIVITIES:							
Instructional	19,759,738		3,176,449		(16,583,289)		(16,583,289)
Student Support Services	917,680		76,899		(840,781)		(840,781)
Staff Support Services	990,057		376,578		(613,479)		(613,479)
District Administration	742,344				(742,344)		(742,344)
School Administration	1,263,952				(1,263,952)		(1,263,952)
Business Support Services	532,961		760		(532,201)		(532,201)
Plant Operation & Maintenance	2,462,465				(2,462,465)		(2,462,465)
Student Transportation	1,859,238		3,398		(1,855,840)		(1,855,840)
Central Office	553				(553)		(553)
Community Service Operations	232,442		246,066		13,624		13,624
Facilities Acquisition & Construction				2,125,606	2,125,606		2,125,606
Interest on Long-Term Debt - Note P	861,097				(861,097)		(861,097)
TOTAL GOVERNMENTAL ACTIVITIES	29,622,527	0	3,880,150	2,125,606	(23,616,771)		(23,616,771)
BUSINESS-TYPE ACTIVITIES:							
Food Service	1,687,459	661,103	872,354			(154,002)	(154,002)
TOTAL BUSINESS-TYPE ACTIVITIES	1,687,459	661,103	872,354	0	0	(154,002)	(154,002)
TOTAL SCHOOL DISTRICT	31,309,986	661,103	4,752,504	2,125,606	(23,616,771)	(154,002)	(23,770,773)
GENERAL REVENUES:							
Taxes					7,684,679		7,684,679
State Aid - Formula Grants					17,758,896		17,758,896
Investment Earnings					243,756	6,031	249,787
Proceeds From Bonds							0
Miscellaneous					16,784		16,784
SPECIAL ITEMS:							0
Gain(Loss) Sale of Assets					(8,172)	(132)	(8,304)
Loss Compensation					89,181		89,181
TOTAL GENERAL & SPECIAL					25,785,124	5,899	25,791,023
CHANGE IN NET ASSETS					2,168,353	(148,103)	2,020,250
NET ASSETS - BEGINNING					16,650,846	500,122	17,150,968
NET ASSETS - ENDING					18,819,199	352,019	19,171,218

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	2,005,514	15,837	1,176,865	69,878	3,268,094
Accounts Receivable:					
Taxes - Current	93,854				93,854
Taxes - Delinquent	2,265				2,265
Accounts	17,570	53,375			70,945
Due from Other Funds					0
Intergovernmental - State	6,820	111,210	3,196		121,226
Intergovernmental - Federal		126,686			126,686
TOTAL ASSETS	<u>2,126,023</u>	<u>307,108</u>	<u>1,180,061</u>	<u>69,878</u>	<u>3,683,070</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	108,382	8,159	1,030,650		1,147,191
Due to Other Funds					0
Accrued Salaries & Sick Leave	387,771				387,771
Deferred Revenues		298,949			298,949
Total Liabilities	<u>496,153</u>	<u>307,108</u>	<u>1,030,650</u>	<u>0</u>	<u>1,833,911</u>
Fund Balance:					
Reserved for:					
Encumbrances					0
Site-Based Carryforward	140,940				140,940
Accrued Sick Leave	824,983				824,983
Unreserved:					
Unreserved - Reported in Non-Major				55,771	55,771
Capital Projects Fund			26,393		26,393
Debt Service Fund				14,107	14,107
Other Purposes	663,947		123,018		786,965
Total Fund Balance	<u>1,629,870</u>	<u>0</u>	<u>149,411</u>	<u>69,878</u>	<u>1,849,159</u>
TOTAL LIABILITIES AND NET ASSETS	<u>2,126,023</u>	<u>307,108</u>	<u>1,180,061</u>	<u>69,878</u>	<u>3,683,070</u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

Amounts reported for governmental activities in the statement of net assets are different because:

TOTAL GOVERNMENTAL FUND BALANCE		1,849,159
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	71,444,823	
Accumulated Depreciation	<u>(19,145,175)</u>	52,299,648
Bond Issuance Costs		829,030
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(34,395,002)	
Capital Lease Obligation	(664,411)	
Accrued Interest on Bonds	(274,242)	
Accrued Sick Leave	<u>(824,983)</u>	<u>(36,158,638)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u><u>18,819,199</u></u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	GENERAL	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	5,924,174			1,760,505	7,684,679
Earnings on Investments	146,834	629	94,594	1,699	243,756
Intergovernmental - State	17,438,658	1,400,107	899,298	1,547,004	21,285,067
Intergovernmental - Federal		2,417,927			2,417,927
Other Sources	12,995	62,049	81,720	16,786	173,550
TOTAL REVENUES	23,522,661	3,880,712	1,075,612	3,325,994	31,804,979
EXPENDITURES:					
Instructional	15,568,575	3,612,570			19,181,145
Student Support Services	759,933	76,899			836,832
Staff Support Services	609,181	376,578			985,759
District Administration	718,307				718,307
School Administration	1,359,180				1,359,180
Business Support Services	528,165	760			528,925
Plant Operation & Maintenance	2,072,526			273,493	2,346,019
Student Transportation	1,629,793	3,398			1,633,191
Central Office					0
Food Service Operation					0
Community Service Operations		246,067			246,067
Adult Education Operations					0
Facilities Acquisition & Construction			8,948,464	135,455	9,083,919
Debt Service:					
Principal				1,599,304	1,599,304
Interest				1,475,076	1,475,076
TOTAL EXPENDITURES	23,245,660	4,316,272	8,948,464	3,483,328	39,993,724
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	277,001	(435,560)	(7,872,852)	(157,334)	(8,188,745)
OTHER FINANCING SOURCES(USES):					
Proceeds from Sale of Bonds					0
Proceeds from Sale of Assets					0
Operating Transfers In - Note O	21,266	456,827		2,735,673	3,213,766
Operating Transfers Out - Note O	(184,480)	(21,267)	(417,227)	(2,590,792)	(3,213,766)
TOTAL OTHER FINANCING SOURCES	(163,214)	435,560	(417,227)	144,881	0
NET CHANGE IN FUND BALANCES	113,787	0	(8,290,079)	(12,453)	(8,188,745)
FUND BALANCES - BEGINNING	1,516,083	0	8,439,490	82,331	10,037,904
FUND BALANCES - ENDING	1,629,870	0	149,411	69,878	1,849,159

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Amounts reported for governmental activities in the statement of net assets are different because:

NET CHANGES - GOVERNMENTAL FUNDS (8,188,745)

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.

Depreciation Expense	(1,796,309)	
Capital Outlays	9,571,183	
	7,774,874	7,774,874

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal Paid	1,599,304	
Bond Proceeds	0	
	1,599,304	1,599,304

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.

Amortization-Bond Issuance Costs	(61,856)	
Capitalized Interest	651,888	
Accrued Interest Payable	23,947	
Accrued Sick Leave	383,040	
	997,019	997,019

In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from change in fund balances by the cost of the asset sold.

Gain - Sale of Assets		(14,099)
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CHANGES - NET ASSETS GOVERNMENTAL FUNDS 2,168,353

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	5,317,336	5,317,336	5,924,174	606,838
Other Local Sources	95,000	95,000	146,834	51,834
State Sources	13,142,236	13,142,236	17,438,658	4,296,422
Federal Sources	0	0	0	0
Other Sources	85,000	85,000	34,261	(50,739)
TOTAL REVENUES	18,639,572	18,639,572	23,543,927	4,904,355
EXPENDITURES:				
Instructional	11,848,843	11,848,843	15,568,575	(3,719,732)
Student Support Services	769,682	769,682	759,933	9,749
Staff Support Services	616,339	616,339	609,181	7,158
District Administration	796,253	796,253	718,307	77,946
School Administration	1,110,692	1,110,692	1,359,180	(248,488)
Business Support Services	473,078	473,078	528,165	(55,087)
Plant Operation & Maintenance	1,895,011	1,895,011	2,072,526	(177,515)
Student Transportation	1,609,197	1,609,197	1,629,793	(20,596)
Central Office				0
Community Service Operations				0
Facility Acquisition & Construction				0
Other	1,036,560	1,036,560	184,480	852,080
TOTAL EXPENDITURES	20,155,655	20,155,655	23,430,140	(3,274,485)
NET CHANGE IN FUND BALANCE	(1,516,083)	(1,516,083)	113,787	1,629,870
FUND BALANCES - BEGINNING	1,516,083	1,516,083	1,516,083	0
FUND BALANCES - ENDING	0	0	1,629,870	1,629,870

On-behalf payments totaling \$4,268,704 are not budgeted by the Mercer County School District.

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2009

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes				
Other Local Sources	26,690	26,690	62,049	(35,359)
State Sources	1,246,203	1,246,203	1,400,107	(153,904)
Federal Sources	2,838,001	2,508,810	2,417,927	90,883
Other Sources	450,550	417,340	457,456	(40,116)
TOTAL REVENUES	4,561,444	4,199,043	4,337,539	(138,496)
EXPENDITURES:				
Instructional	3,932,864	3,506,249	3,612,570	(106,321)
Student Support Services	67,206	63,892	76,899	(13,007)
Staff Support Services	317,472	306,993	376,578	(69,585)
District Administration				0
School Administration				0
Business Support Services			760	(760)
Plant Operation & Maintenance				0
Student Transportation	0	0	3,398	(3,398)
Central Office				0
Community Service Operations	231,634	231,634	246,067	(14,433)
Facility Acquisition & Construction				0
Other	12,268	90,275	21,267	69,008
TOTAL EXPENDITURES	4,561,444	4,199,043	4,337,539	(138,496)
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	0	0	0	0
FUND BALANCES - ENDING	0	0	0	0

See accompanying auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009

	ENTERPRISE FUNDS		
	FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	93,923		93,923
Investments			0
Accounts Receivable	75,960		75,960
Inventories for Consumption	15,261		15,261
Total Current Assets	185,144	0	185,144
Noncurrent Assets:			
Furniture & Equipment	703,437		703,437
Less: Accumulated Depreciation	(534,112)		(534,112)
Total Noncurrent Assets	169,325	0	169,325
TOTAL ASSETS	354,469	0	354,469
LIABILITIES:			
Current Liabilities:			
Account Payable	2,450		2,450
Accrued Sick Leave			0
Total Current Liabilities	2,450	0	2,450
Net Assets:			
Invested in Assets, Net of Debt	169,325		169,325
Unrestricted	182,694		182,694
Total Net Assets	352,019	0	352,019
TOTAL LIABILITIES AND NET ASSETS	354,469	0	354,469

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	ENTERPRISE FUNDS		
	FOOD SERVICE	OTHER ENTERPRISE FUNDS	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	643,071		643,071
Other Operating Revenues	18,032		18,032
TOTAL OPERATING REVENUES	661,103	0	661,103
OPERATING EXPENSES:			
Salaries & Benefits	727,775		727,775
Contract Services	144,764		144,764
Materials & Supplies	753,537		753,537
Depreciation - Note F	19,380		19,380
Other Operating Expenses	42,003		42,003
TOTAL OPERATING EXPENSES	1,687,459	0	1,687,459
OPERATING INCOME(LOSS)	(1,026,356)	0	(1,026,356)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	693,129		693,129
State Grants	102,765		102,765
Donated Commodities	76,460		76,460
Interest Income	6,031		6,031
Gain (Loss) Sale of Assets	(132)		(132)
Miscellaneous Income			0
TOTAL NONOPERATING REVENUE	878,253	0	878,253
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(148,103)	0	(148,103)
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET ASSETS	(148,103)	0	(148,103)
TOTAL NET ASSETS - BEGINNING	500,122	0	500,122
TOTAL NET ASSETS - ENDING	352,019	0	352,019

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from:	
Lunchroom Sales	661,103
Cash Paid to/for:	
Employees	(639,382)
Supplies	(767,989)
Other Activities	(42,135)
	<hr/>

Net Cash Used by Operating Activities (788,403)

CASH FLOWS FROM NON-CAPITAL AND RELATED
FINANCING ACTIVITIES:

Federal Grants	683,253
State Grants	15,633
	<hr/>

Net Cash Provided by Non-Capital and Related Financing Activities 698,886

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:

Purchases of Capital Assets	(34,403)
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CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of Interest Income	6,031
	<hr/>

Net Decrease in Cash and Cash Equivalents (117,889)

Balances, Beginning of Year

211,812

Balances, End of Year

93,923

RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:

Operating Loss (1,026,356)

Adjustments to Reconcile Operating Loss to Net Cash (Used)
by Operating Activities

Depreciation	19,380
State On-Behalf Payments	87,132
Donated Commodities	76,460
Change in Assets and Liabilities:	
Accounts Receivable	-
Inventory	53,871
Accounts Payable	1,110
	<hr/>

Net Cash Used by Operating Activities

(788,403)

Schedule of Non-Cash Transactions:

Donated Commodities	76,460
State On-Behalf Payments	87,132

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	296,162
Accounts Receivable	3,131
Investment Income Receivable	
Loans Receivable	
Investments - Note D	
TOTAL ASSETS	<u>299,293</u>
LIABILITIES:	
Accounts Payable	3,165
Due to Student Groups	296,128
TOTAL LIABILITIES	<u>299,293</u>
NET ASSETS HELD IN TRUST	<u><u>0</u></u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Mercer County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Mercer County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Mercer County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Mercer County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Mercer County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on Pages 39 and 40. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2009, to finance the General Fund operations were \$0.548 per \$100 valuation for real property, \$0.579 per \$100 valuation for business personal property, and \$0.491 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Assets.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$3,644,102. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cash and cash equivalents at June 30, 2009, consisted of the following:

	Bank Balance	Book Balance
Whitaker Bank	4,599,073	3,658,209

Breakdown per financial statements:

Governmental Funds	3,268,094
Proprietary Funds	93,923
Agency Funds	<u>296,192</u>
	<u>3,658,209</u>

NOTE D – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Fiscal Court of Mercer County aggregating \$34,395,002.

The original amount of each issue and interest rates are summarized below:

1998	525,000	4.30%
1998 B	2,090,000	4.00% - 4.40%
2001	200,000	3.25% - 4.75%
2002	1,670,000	1.40% - 3.80%
2003	1,900,000	3.50% - 4.55%
2004	2,165,000	2.00% - 3.60%
2004 B	230,000	2.00% - 4.25%
2005	1,945,000	3.20% - 4.20%
2007	25,305,000	4.00% - 4.25%
2008	1,395,000	2.40% - 3.30%

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Mercer County Fiscal Court and the City of Harrodsburg to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1995 the Board entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2009, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2009-10	1,515,000	1,385,100	296,696	2,603,404
2010-11	1,565,002	1,328,030	291,316	2,601,716
2011-12	1,545,000	1,269,189	213,989	2,600,200
2012-13	1,600,000	1,209,924	210,633	2,599,291
2013-14	1,665,000	1,148,026	216,014	2,597,012
2014-15	1,620,000	1,082,726	120,224	2,582,502
2015-16	1,680,000	1,020,570	116,179	2,584,391
2016-17	1,740,000	954,408	114,309	2,580,098
2017-18	1,805,000	885,628	105,589	2,585,039
2018-19	1,855,000	813,891	80,692	2,588,200
2019-20	1,920,000	736,505	66,909	2,589,596
2020-21	2,000,000	655,415	66,908	2,588,507
2021-22	2,090,000	570,928	66,908	2,594,020
2022-23	2,175,000	485,116	66,911	2,593,205
2023-24	2,265,000	394,149	66,195	2,592,954
2024-25	2,355,000	303,829	64,307	2,594,522
2025-26	2,450,000	206,265	64,307	2,591,958
2026-27	<u>2,550,000</u>	<u>108,375</u>	<u>64,309</u>	<u>2,594,066</u>
	<u>34,395,002</u>	<u>14,558,072</u>	<u>2,292,394</u>	<u>46,660,680</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Long-term liability activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Revenue Bond Payable	35,880,020	0	1,485,018	34,395,002	1,515,000
Accrued Sick Leave	<u>1,311,796</u>	<u>0</u>	<u>121,412</u>	<u>1,190,384</u>	<u>365,402</u>
Governmental Activities					
Long-Term Liabilities	<u>37,191,816</u>	<u>0</u>	<u>1,606,430</u>	<u>35,585,386</u>	<u>1,880,402</u>

NOTE E - CAPITAL LEASE PAYABLE

The District is the lessee of buses under capital leases expiring in various years through 2017. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2009.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2008</u>
Buses	1,086,180
Accumulated Amortization	<u>(572,196)</u>
	<u>513,984</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2009:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2010	132,241
2011	110,318
2012	110,496
2013	106,526
2014	103,877
Thereafter	<u>199,012</u>
Net minimum lease payments	762,470
Amount representing interest	<u>(98,059)</u>
Present value of net minimum lease payments	<u>664,411</u>

Interest rates on capitalized leases vary from 1.00% to 5.30%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	BEGINNING			ENDING
	BALANCE	ADDITIONS	RETIREMENTS	BALANCE
GOVERNMENTAL ACTIVITIES:				
Land	1,622,246			1,622,246
Buildings & Building Improvements	31,253,067	29,011,561		60,264,628
Technology Equipment	31,253,067	830,309	212,977	2,982,176
Vehicles	4,319,887		50,947	4,268,940
General Equipment	1,583,339	741,361	17,867	2,306,833
Construction	20,360,160	(20,360,160)		0
TOTAL AT HISTORICAL COST	61,503,543	10,223,071	281,791	71,444,823
LESS ACCUMULATED DEPRECIATION FOR:				
Land	0			0
Buildings & Building Improvements	12,192,712	1,132,296		13,325,008
Technology Equipment	1,515,006	315,493	211,725	1,618,774
Vehicles	2,893,544	242,365	50,947	3,084,962
General Equipment	1,015,297	106,155	5,021	1,116,431
Construction	0			0
TOTAL ACCUMULATED DEPRECIATION	17,616,559	1,796,309	267,693	19,145,175
GOVERNMENTAL ACTIVITIES CAPITAL NET	43,886,984	8,426,762	14,098	52,299,648
PROPRIETARY ACTIVITIES:				
Land	0			0
Buildings & Building Improvements	0			0
Technology Equipment	8,684			8,684
Vehicles	0			0
General Equipment	681,480	34,403	21,130	694,753
Construction	0			0
TOTALS AT HISTORICAL COST	690,164	34,403	21,130	703,437
LESS ACCUMULATED DEPRECIATION FOR:				
Land	0			0
Buildings & Building Improvements	0			0
Technology Equipment	2,685	1,564		5,348
Vehicles	0			0
General Equipment	533,045	17,816	20,998	529,863
Construction	0			0
TOTAL ACCUMULATED DEPRECIATION	535,730	19,380	20,998	534,112
PROPRIETARY ACTIVITIES CAPITAL NET	154,434	15,023	132	169,325
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,314,929
Student Support Services				90,998
Staff Support Services				5,701
District Administration				24,037
School Administration				10,443
Business Support Services				4,342
Plant Operation & Maintenance				116,446
Student Transportation				227,485
Central Office				553
Community Service Operations				1,375
TOTAL				1,796,309

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2009, as follows:

<u>Year Ending June 30,</u>	
2009	66,158
2010	66,158
2011	66,158
2012	66,158
2013	<u>66,158</u>
Total minimum payments	<u>330,790</u>

NOTE H – RETIREMENT PLANS

Certified employees are covered under the Teachers' Retirement System of Kentucky ("KTRS"), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KRS. Members hired before July 1, 2008 are required to contribute 9.855% of their salaries and for members hired after July 1, 2008 to contribute 10.855% to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% and 14.105% of salaries respectively. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE)

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 15, 2008, and 6% for employees hired after September 15, 2008, and a Board contribution of 13.50% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$17,611,380. The payroll for employees covered under KTRS was \$14,096,527 and for CERS was \$3,514,853.

For the year ended June 30, 2009, the Commonwealth contributed \$1,746,702 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2009, were \$155,449, which represents those employees covered by federal programs.

The contribution requirements for CERS for the year ended June 30, 2009, was \$650,954, which consisted of \$474,240 from the Board and \$176,714 from the employees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the Plan documents.

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increased and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following tables present certain information regarding the plans’ status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS June 30, 2008	CERS June 30, 2008
Assets available for benefits, at fair value	15,321,300,000	5,731,502,438
Pension benefit obligation	<u>(22,460,300,000)</u>	<u>(7,304,217,691)</u>
(Underfunded)/overfunded pension benefit obligation	<u>(7,139,000,000)</u>	<u>(1,572,715,253)</u>

Ten-year historical trend information showing KTRS’s and CERS’s progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2008, comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District’s portion of the unfunded past service cost or the vested benefits of the District’s portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE I – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE J – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related which include Workers' Compensation insurance.

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Food Service Fund	148,103
Construction Fund	8,290,078
Capital Outlay	61,443

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	33,210
Operating	General	Special Revenue	Reimbursement	6,389
Operating	General	Debt Service	Debt Service	144,881
Operating	Building Fund	Debt Service	Debt Service	2,590,792
Operating	Special Revenue	General	Indirect Cost	21,267
Operating	Construction	Special Revenue	Technology	<u>417,227</u>
				<u>3,213,766</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2009.

NOTE P – CAPITALIZED INTEREST

For the year ended June 30, 2009, the District incurred interest expense of \$1,512,985. Of this amount, \$651,888 was capitalized to the Mercer County High School project and \$861,097 was recorded as a current year expense.

MERCER COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2009

	CAPITAL OUTLAY FUND	BUILDING FUND	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:				
Cash & Cash Equivalents	7,256	48,516	14,106	69,878
Accounts Receivable:				
Taxes				
Accounts				
TOTAL ASSETS	<u>7,256</u>	<u>48,516</u>	<u>14,106</u>	<u>69,878</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable				
Accrued Sick Leave				
Deferred Revenues				
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:				
Reserved for:				
Encumbrances				
Site-Based Carryforward				
Accrued Sick Leave				
Unreserved - Reported in Non-Major	7,256	48,516		55,772
Capital Projects Fund				
Debt Service Fund			14,106	14,106
Other Purposes				
Total Fund Balances	<u>7,256</u>	<u>48,516</u>	<u>14,106</u>	<u>69,878</u>
TOTAL LIABILITIES AND NET ASSETS	<u>7,256</u>	<u>48,516</u>	<u>14,106</u>	<u>69,878</u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2009

	CAPITAL OUTLAY FUND	BUILDING FUND	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:				
Taxes		1,760,505		1,760,505
Earnings from Investments			1,699	1,699
Intergovernmental - State	295,200	931,108	320,696	1,547,004
Intergovernmental - Federal				0
Other Sources			16,786	16,786
TOTAL REVENUES	295,200	2,691,613	339,181	3,325,994
EXPENDITURES:				
Instructional				0
Student Support Services				0
Staff Support Services				0
District Administration				0
School Administration				0
Business Support Services				0
Plant Operations & Maintenance	273,493			273,493
Student Transportation				0
Central Office				0
Community Service Operations				0
Facilities Acquisition & Construction	83,150	52,305		135,455
Debt Service:				0
Principal			1,599,304	1,599,304
Interest			1,475,076	1,475,076
TOTAL EXPENDITURES	356,643	52,305	3,074,380	3,483,328
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(61,443)	2,639,308	(2,735,199)	(157,334)
OTHER FINANCING SOURCES(USES):				
Proceeds from Sale of Bonds				0
Proceeds from Sale of Assets				0
Operating Transfers In			2,735,673	2,735,673
Operating Transfers Out		(2,590,792)		(2,590,792)
TOTAL OTHER FINANCING SOURCES(USES)	0	(2,590,792)	2,735,673	144,881
NET CHANGE IN FUND BALANCES	(61,443)	48,516	474	(12,453)
FUND BALANCES - BEGINNING	68,699	0	13,632	13,632
FUND BALANCES - ENDING	7,256	48,516	14,106	69,878

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2009

	FUND BALANCE JULY 1, 2008	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2009
Mercer County High School	145,607	301,561	313,889	133,279
Mercer County 9th Grade Academy	5,384	27,814	19,109	14,089
Kenneth King Middle School	65,530	139,386	132,398	72,518
Mercer County Elementary School	44,792	45,935	42,024	48,703
Harlow Elementary School	21,216	82,497	76,174	27,539
Total Activity Funds (Due to Student Groups)	282,529	597,193	583,594	296,128

See independent accountant's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2009

	CASH BALANCE JULY 1, 2008	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2009	ACCOUNTS RECEIVABLE JUNE 30, 2009	ACCOUNTS PAYABLE JUNE 30, 2009	FUND BALANCE JUNE 30, 2009
General Fund	1,415	5,611	6,270	756		109	647
Copier Paper	531	0	411	120	300		420
Wal-Mart Foundation	1,000	0	891	109	200		309
Pepsi Donation	146	0	146	0			0
Reimbursements	0	0	0	0			0
Titan School Store	691	12,884	12,265	1,310			1,310
Vending Machines	3,737	5,185	3,381	5,541			5,541
Community Based Ins.	51	493	531	13			13
Pep Club	145	0	0	145			145
Book Rental	7,367	34,053	26,622	14,798			14,798
Toborg Incentive	1,579	0	155	1,424			1,424
Student Fees	354	14,828	14,008	1,174	55	123	1,106
AP Exams	885	9,384	8,733	1,536			1,536
Honor Roll	225	0	0	225			225
Class of 2010	204	0	0	204			204
Class of 2009	894	0	894	0			0
Concessions	134	1,349	883	600			600
Lounge	77	2,693	1,509	1,261		75	1,186
Athletic General	48,589	51,785	65,843	34,531		707	33,824
46 District B-ball Tournament	0	6,347	6,347	0			0
Athletic Receipts	0	47,379	47,379	0			0
Football	0	875	875	0			0
District Football	0	2,875	2,875	0			0
Boys Basketball	0	460	460	0			0
Dist. Football Playoff	0	2,743	2,743	0			0
Girls Basketball	0	935	935	0			0
Girls Dist. Basketball	0	2,225	2,225	0			0
Varsity Cheerleader	0	130	130	0			0
Heart of the Bluegrass	946	5,645	4,105	2,486			2,486
Boys Cross Country	0	458	458	0			0
Girls Cross Country	0	467	467	0			0
Girls Track	0	883	883	0			0
Boys Track	0	594	594	0			0
Girls Tennis	0	516	516	0			0
Boys Tennis	0	875	875	0			0
Boys Golf	0	1,000	1,000	0			0
Girls Golf	0	265	265	0			0

Baseball	0	220	220	0		0
Jorg Potts Memorial	200	0	0	200		200
Boys Soccer	0	454	454	0		0
Girls Soccer	0	646	646	0		0
Boys District Soccer	0	2,540	2,540	0		0
Pepsi/Boosters	58	15,424	15,456	26		26
Softball	0	584	584	0		0
Girls Tennis Booster	0	1,575	1,280	295		295
Girls Soccer Fundraiser	629	5,030	5,530	129		129
District Softball	0	800	800	0		0
District Baseball	0	6	6	0		0
Athletic Trainer	247	0	0	247		247
Volleyball	0	270	270	0		0
Boys Soccer Booster	3,440	0	3,440	0		0
MCSH Volleyball	3,948	2,145	3,968	2,125		2,125
Beta Club	964	75	807	232		232
MCSH Book Club	299	75	170	204		204
Chess Club	72	0	0	72		72
DECA Club	424	0	0	424		424
FCA	1,087	81	57	1,111		1,111
FFA	1,475	12,565	13,178	862		862
Agriculture	143	0	113	30		30
PALS	100	210	310	0		0
FCCLA	291	7,304	7,426	169		169
MCHS Dawgs	980	0	0	980		980
National Honor Society	544	216	376	384		384
Student Council	687	0	0	687		687
STLP	71	300	203	168	250	418
Key Club	95	1,038	943	190		154
JSA	504	0	0	504	36	504
Art	117	22	56	83		83
Band	27	1,593	1,620	0		0
Senior Class Trip	1,122	4,152	5,270	4		4
Business Education	353	0	100	253		253
Chorus	367	2,338	1,917	788		788
TMI Music	712	0	215	497		497
Drama Dept.	8,324	7,695	9,317	6,702	2,326	9,028
Foreign Language	579	0	0	579		579
Advanced Foods	0	360	360	0		0
Interior Design	0	35	31	4		4
Foods Class	60	1,069	942	187	90	97
Child Development	38	65	101	2		2
Horticulture	21,247	25,552	36,537	10,262		10,262
Aquaculture	2,597	0	0	2,597		2,597
Industrial Arts	538	4,349	4,459	428		428
Tech Club (I. Arts)	95	0	81	14		14

Poetry Club	274	0	127	147			147
Library	1,337	1,980	987	2,330			2,330
Foods Science	76	25	11	90			90
Social Studies	106	0	0	106			106
Science Dept.	51	0	0	51			51
TATU	589	0	32	557			557
Prom Fund	6,729	8,955	9,327	6,357			6,357
Sr. Shirts	72	485	485	72			72
Yearbook	5,613	6,591	5,864	6,340			6,340
Newspaper	15	0	15	0			0
Colonel Chinn Scholarship	2,754	99	82	2,771			2,771
Darrin Maddox Memeorial	2,320	0	300	2,020			2,020
Kevin Craddock Memorial	0	0	0	0			0
Wayne Davis Memeorial	150	0	0	150			150
Pay Peavler Scholarship	198	295	0	493			493
Writers Grant	359	2,184	1,511	1,032			1,032
WHAS Crusade for Children	124	0	0	124			124
Hitachi Scholarship	0	0	0	0			0
T Masters-Equipment	470	0	379	91			91
Summer School	5,754	3,005	544	8,215		2,026	6,189
Arts & Humanities	639	1,444	1,346	737			737
TAGO	153	344	183	314			314
Technology	1,000	0	1,000	0			0
Project Graudation	2,630	9,210	8,195	3,645			3,645
Total All Funds	152,817	346,342	365,845	133,314	3,131	3,166	133,279
Interfund Transfers	0	(47,912)	(47,912)	0	0	0	0
Total	152,817	298,430	317,933	133,314	3,131	3,166	133,279

MERCER COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - School Improvement Grant	84.01	3207	1,417
Title I - School Improvement Grant	84.01	3208	24,357
Title I - School Improvement Grant	84.01	3338	17
Title I Grants to Local Educational Agencies	84.010	3108	158,031
Title I Grants to Local Educational Agencies	84.010	3109	560,675
Title I - Neglected and Delinquent Children	84.010	3139	18,373
Title I Grants to Local Educational Agencies Total			<u>762,870</u>
 Title II, Part A -Teacher Quality Enhancement Grants	84.336	4018	74,493
Title II, Part A -Teacher Quality Enhancement Grants	84.336	4019	124,648
Title II, Part C - Perkins Voc.	84.048	3488	4,649
Title II, Part C - Perkins Voc.	84.048	3489	28,067
Title II, Part D - Federal Ed Tech - Basic	84.318	4258	4,546
Title II, Part D - Federal Ed Tech - Basic	84.318	4259	9,665
Title II Cluster			<u>246,068</u>
 Migrant Education - State Grant Program	84.011	3117	9,383
 Title V - State Grants for Innovative Programs	84.298	3348	2,331
Title V - State Grants for Innovative Programs	84.298	3346A	200
Title V - State Grants for Innovative Programs Total			<u>2,531</u>
 IDEA - Special Education - Grants to State	84.027	3378	273,479
IDEA - Special Education - Grants to State	84.027	3379	477,534
IDEA - Special Education - Preschool Grants	84.173	3438	34,582
IDEA - Special Education - Preschool Grants	84.173	3439	31,886
Special Education Cluster			<u>817,481</u>
 Tech - Prep Education	84.243	3638	460
Tech - Prep Education	84.243	3639	4,292
Tech - Prep Education Total			<u>4,752</u>
 Community Based Work Transition	84.341	3718	17,040
Community Based Work Transition	84.341	3719	5,535
Community Based Work Transition			<u>22,575</u>
 Title IV, Part A - Safe & Drug Free Schools	84.186	4068	1,331
Title IV, Part A - Safe & Drug Free Schools	84.186	4069	4,988
Title IV, Part A - Safe & Drug Free Schools			<u>6,319</u>
 Reading First	84.357A	5087R	9,916
Reading First	84.357A	5088	262,345
			<u>272,261</u>
 Carol White Physical Education	84.215F	5329F	<u>212,331</u>
Total U.S. Department of Education			2,356,571
 <u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-08	180,617
National School Lunchroom	10.555	7750002-09	359,098
School Breakfast Program	10.553	7760005-08	50,014
School Breakfast Program	10.553	7760005-09	92,788
Child Nutrition Cluster			<u>682,517</u>
Pass-Through State Department of Agriculture			
In-Kind Contributions	10.550	N/A	<u>76,460</u>
Total U.S. Department of Agriculture			758,977
 Total Federal Financial Assistance			<u><u>3,115,548</u></u>

* Tested as major program

MERCER COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Mercer County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

MERCER COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

84.01/84.010
84.215F

Title I Cluster
Carol White Physical Education Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

MERCER COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2009

There were no prior year audit findings.

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101

Charles M. White, CPA

Email cmwcpa@windstream.net

October 12, 2009

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District, as of and for the year ended June 30, 2009, which collectively comprise the Mercer County School District's basic financial statements and have issued our report thereon dated October 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Mercer County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mercer County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mercer County School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Mercer County School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Mercer County School District's financial statements that is more than inconsequential will not be prevented or detected by the Mercer County School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Mercer County School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mercer County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Mercer County School District in a separate letter dated October 12, 2009.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, members of the Board of Education of Mercer County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101

Charles M. White, CPA

Email cmwcpa@windstream.net

October 12, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

Compliance

We have audited the compliance of Mercer County School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Mercer County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Mercer County School District's management. Our responsibility is to express an opinion on Mercer County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mercer County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Mercer County School District's compliance with those requirements.

In our opinion, Mercer County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of Mercer County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Mercer County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mercer County School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Mercer County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Mercer County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, members of the Board of Education of Mercer County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101

Charles M. White, CPA

Email cmwcpa@windstream.net

October 12, 2009

MANAGEMENT LETTER

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

In planning and performing our audit of the financial statements of Mercer County School District for the year ended June 30, 2009, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

In addition, we have reviewed recommendations made by the prior auditors in the audit report for the year ended June 30, 2008, and we have reviewed management's responses to those recommendations. Our findings based upon those prior year recommendations are also summarized below.

Prior Year Recommendation:

A vehicle was purchased without a purchase order, and no evidence of price quotes from other dealers was available.

Purchases of fixed assets were properly approved and any new purchases were bid. Proper documentation was maintained.

Prior Year Recommendation:

Individual School Activity Funds:

Kenneth D. King Middle School:

- 1) It was noted that all checks written did not contain dual signatures as required the states "Redbook".

All checks selected were found to contain two signatures.

Evan Harlow Elementary School:

- 1) The bank reconciliation report did not balance with any of the school reports.

The bank reconciliation report was in balance with the school ledger reports.

- 2) Checks are computer written but recorded with a separate entry. Checks were recorded with the wrong check number for a different amount than the actual check and there were a few problems with voided checks.

No instances of these errors were found.

- 3) An instance of duplicate payment was noted, and the void was not handled properly.

Auditors noted no instances of duplicate payment. There were no problems noted with voided checks for this school for the year ended June 30, 2009.

Recommendation:

During the course of the audit, it was noted that checks were issued without clear evidence of goods being received. We recommend that receiving reports be completed for all applicable purchases either by signing the "Received by" line on the purchase order, attaching the packing slip to the voucher package, or signing the actual invoice prior to payment being issued.

Management Response:

We will ensure that the receipt of goods has been clearly documented prior to payment being issued.

Recommendation:

It was noted that voucher packets did not contain evidence of reconciliation between an invoice, purchase order, and receiving report. We recommend that all parts of the voucher packet be reconciled to each other.

Management Response:

We will reconcile purchase orders, invoices, and receiving reports to ensure that proper payment is issued.

Recommendation:

The collateral held by the District's primary financial institution was reviewed during the audit. The District was fully collateralized at June 30, 2009. However, certain types of collateral pledged against the District's assets were inappropriate according to the agreement between the District and financial institution. We recommend that the collateral be reviewed to ensure compliance with the agreement.

Management Response:

We will review the collateral and listing of pledge assets to ensure compliance.

Recommendation:

During the course of the audit, various disbursements were reviewed at both the District and School Activity Fund levels. A few disbursements at both levels were found for which proper supporting documentation was not attached to the disbursement. We recommend that no disbursement be made from a purchase order only. If an invoice is not available at the time payment is demanded, a standard invoice should be issued and approved to support the disbursement. Once the invoice or receipt is obtained, it should be attached to the voucher packet.

Management Response:

We will ensure that no payment is issued without appropriate supporting documentation.

Recommendation:

During review of the school activity funds, it was noted that a few checks written at Mercer County High School had been voided by defacing the original check and documentation but had not been properly voided in the activity fund ledger system. These checks remained on the outstanding check list as of June 30, 2009. We recommend that all voided checks be properly voided in the activity fund ledger system.

Management Response:

We will instruct the activity fund bookkeepers to ensure that voided checks are properly accounted for within the activity fund ledger system.

Recommendation:

It was noted that receipts for the activity funds at various schools did not always contain two signatures. To strengthen internal controls at the activity fund level and to fulfill the state's "Redbook" requirements, we recommend that all receipts be signed by two parties.

Management Response:

We will have two parties review and sign all receipts.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to perform any additional study of these matters or to assist you in implementing the recommendations.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101

Charles M. White, CPA

Email cmwcpa@windstream.net

October 12, 2009

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District for the year ended June 30, 2009, and have issued our report thereon dated September 19, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133:

As stated in our engagement letter dated April 15, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Mercer County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expression our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Mercer County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Mercer County School District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Mercer County School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Mercer County School District's compliance with those requirements.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Mercer County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 12, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Mercer County Board of Education and management of Mercer County School District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants